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PROVING THE POTENTIAL

CENTURION ENERGY INTERNATIONAL INC. **ANNUAL REPORT** 2000

CORPORATE OVERVIEW

A public Canadian energy company headquartered in Calgary, Canada, Centurion Energy International Inc. is engaged in oil and gas exploration, development and production in North Africa.

The Company was formed in May 1997 with assets in western Canada, Tunisia and Egypt. In late 1997 the Company's Canadian assets were sold as part of the new management team's strategy to concentrate on larger international prospects that offered higher potential and rewards.

At present, Centurion operates in Tunisia and Egypt, where its management team has exceptional experience and expertise. Potential prospects in other North African countries are under evaluation as part of the Company's growth and development plan.

Toronto Stock Exchange: CUX

Year end: December 31

All dollar amounts are in Canadian dollars unless otherwise indicated.

ANNUAL MEETING

The Annual and Special Shareholders Meeting will be held Tuesday, June 12, 2001 at 3:00pm in the McMurray Room of the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta. Shareholders and others interested in the affairs of the Company are encouraged to attend.

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A CANADIAN OIL AND GAS COMPANY COMES OF AGE IN NORTH AFRICA

In 2000, Centurion Energy International proved the potential of its strategy for North Africa, further defining its assets in Tunisia and Egypt, and further demonstrating its ability to add value for shareholders.

This is the foundation. Now, Centurion enters the next stage of its strategy – developing reserves at Al Manzah, Ezzaouia and El Biban in Tunisia and at Abu Monkar and the El Wastani field in Egypt. Centurion has launched an aggressive, two-year drilling program in Egypt and is drilling five new wells in Tunisia, where the Company will also test the deep Triassic potential.



| (\$000's unless otherwise denoted) | 2000 | 1999* | Change |
|------------------------------------|--------|--------|--------|
| FINANCIAL | | | |
| Oil and gas revenue | 27,452 | 19,794 | +39% |
| Cash flow | 19,059 | 12,832 | +49% |
| Per share, basic (\$) | 0.31 | 0.25 | +24% |
| Per share, fully diluted (\$) | 0.29 | 0.21 | +38% |
| Net Income | 10,179 | 4,487 | +127% |
| Per share, basic (\$) | 0.17 | 0.09 | +89% |
| Per share, fully diluted (\$) | 0.16 | 0.08 | +100% |
| Capital expenditures (net) | 10,647 | 11,696 | -9% |
| Working capital | 12,390 | 955 | +1197% |
| Shares issued and outstanding | 64,677 | 61,185 | +6% |
| OPERATING | | | |
| Operations in Tunisia | | | |
| Realized price (\$/bbl) | 38.96 | 25.12 | +55% |
| Netback (\$/bbl) | 30.29 | 17.69 | +71% |
| Production (mbbls) | 774 | 830 | -7% |
| Daily average production (bopd) | 2,100 | 2,300 | -9% |
| Reserves (mboe)+ | 24,600 | 25,200 | -2% |
| Land, net acres (millions) | 1.7 | 1.9 | -11% |

* Restated. See note 2 to the Company's Financial Statements

+ Proved plus 1/2 probable (6 mcf = 1 bbl)

NORTH AFRICA

OPPORTUNITY THROUGH THE AGES

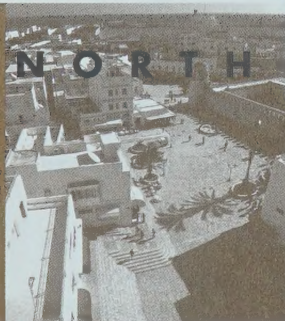
A huge territory with a rich history, North Africa today evokes exotic images shaped by its geography as much as by its diverse cultures.

The fertile valley of the Nile, home of one of the world's oldest civilizations ... hot, windswept plateaus of Libya and Algeria crossed by generations of nomadic Berbers ... ancient trade routes, through cold, high mountain passes to coastal plains, traversed by caravans over innumerable centuries ... the powerful city state of Carthage built in the Bay of Tunis by Phoenicians, great ocean navigators and traders who travelled to the edges of the known world, exploring for riches.

Today, many of the cultures and most of the borders have changed but, for modern explorers, the landmarks have not. In the north, a productive coastal plain along the Mediterranean Sea ... in the south, the vast wastes of the Sahara, the world's largest desert. It is a relentless presence spreading over 4800 km east to west across North Africa and almost 2000 km north to south.

On the surface: sand, rocks, parched earth, barren mountain massifs, fertile valleys and coastal plains.

Underneath: vast underground aquifers and important deposits of natural resources. Crude oil, natural gas, iron ore, gypsum, lead, manganese, zinc, phosphate – the modern trade goods not only of North Africa, but of the world.

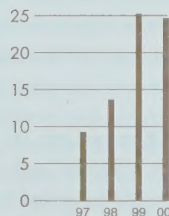


NORTH AFRICA

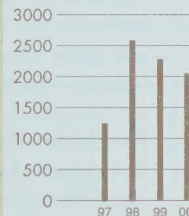
One of the world's richest oil and gas areas, North Africa has immense areas yet to be explored. Centurion Energy, a young Canadian exploration and production company, is using the significant North African petroleum industry experience and expertise of its key people to build a dynamic international energy company.

CENTURION ENERGY

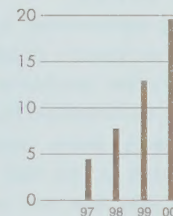
As at December 31



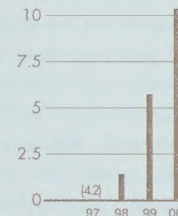
RESERVES
mmboe, Proved +
1/2 Probable,
1999 restated to
6:1 gas conversion



PRODUCTION
Average boepd



CASHFLOW
\$ million



EARNINGS
\$ million

REPORT TO SHAREHOLDERS

To Our Shareholders:

In 2000, Centurion Energy International continued to prove the potential of our strategy for growth and development. The year was highlighted by many achievements as we strengthened the foundation for advancing to the next stage of our activities in North Africa. As events continue to unfold, I am pleased to report progress up to the time of writing.

PERFORMANCE HIGHLIGHTS

- Revenue from oil and gas production increased 39% to \$27 million.
- Cash flow increased 49% to \$19 million or \$0.29 per share (fully diluted).
- Net income more than doubled to \$10 million.
- Fully diluted earnings per share doubled to \$0.16.
- We continued with field development in Tunisia.
- We initiated an aggressive exploration and development plan for Egypt.

TUNISIA: THE NEXT STAGE

At present, we are producing approximately 1,600 bopd (net) from three fields in Tunisia – El Biban, Ezzaouia and Robbana. Further production is expected from our first field in the Grombalia Permit, Al Manzah. Although currently shut-in pending drilling results from Al Manzah -3, the field has produced 700,000 bbls to date from two wells, averaging 3,140 bopd. Centurion has identified 16 prospects and leads with a range of risk levels on the Grombalia Permit. The Mellita Permit also

presents a variety of exploration and development opportunities.

Development Drilling Proceeds at Al Manzah

During 2000, our operations in the Grombalia Permit focussed primarily on the Al Manzah field, where we have completed preliminary field development. The field is technically challenging and characterized by high productivity oil wells with a short payback period.

Al Manzah -2, a successful horizontal well, was drilled last summer and placed on production in October at 4,000 bopd gross. In January 2001, when the gas/oil ratio began to increase, the well was shut-in to conserve reservoir pressure.

A second horizontal well, Al Manzah -3, is being drilled now. With success, the well will be tied in immediately to on-site production facilities and marketed to a nearby refinery. We will then determine the next steps in field development which will likely include a gas re-injection scheme and additional wells.

Focus on New Prospects in 2001

Elsewhere in Tunisia, a second well is planned for our El Biban field; it could be drilled in late 2001. In the Ezzaouia field, we are working with field partners and ETAP, the Tunisian National Petroleum Company, on a field optimization study to enhance and maximize oil recovery. Through seismic reprocessing and interpretation, Centurion has identified a number of prospects on the Mellita

Permit, including several large, prospective reservoirs.

Deep Triassic Test Planned

Two large potential Triassic prospects have been identified underlying our Ezzaouia and El Biban fields. We plan to test these high-impact prospects; drilling could commence as early as mid-2002.

EGYPT: PREPARING FOR PRODUCTION

Centurion's El Manzala Concession contains two gas fields of immediate interest, El Wastani and Abu Monkar. In August 2000, we received the Deed of Assignment officially transferring title and operatorship to Centurion for 100% working interest in this Concession.

In October we re-entered El Wastani -2. The well tested 11 mmcf/d and 230 bbls/d of condensate on a reduced choke and was completed for production. Our Plan of Development and Gas Sales Contract for the El Wastani field were formally approved by the government in July 2000. This plan includes construction of a 28 km pipeline to an existing gas facility to the west and drilling an exploration well, El Wastani East -1, to increase gas reserves in the El Wastani area. El Wastani East -1 was spudded on April 20, 2001.

First production from the El Wastani field is anticipated in mid-2001 with initial gross production of approximately 2,300 boe/d from two wells. With success, the El Wastani East -1 well could be tied in by Q4 2001.

Our relationship with the Egyptian government is strong. In the past year, we were pleased to work with Egypt's Minister of Oil on the establishment of an Egypt-Canada Oil Committee. In May 2001 we will host the Committee's first visit to Alberta.

Aggressive Drilling Program Launched

A drilling rig has been contracted for further development and exploration drilling in 2001/02 on the El Manzala Concession, including three firm wells and four optional wells. As noted above, the first well has spudded. In December 2000, we received preliminary approval for our Plan of Development for the Abu Monkar discovery. This plan includes drilling wells to prove up additional reserves in the Abu Monkar area and construction of a 55 km pipeline to tie in gas to the national pipeline.

CREATING SHAREHOLDER VALUE

In December Centurion raised \$3 million in a private placement with ARC Financial Corporation, completing the transaction at \$0.88 per share. This is the beginning of what we hope will be a continuing increase in investments from financial institutions. The success of our corporate strategy is attracting notice from financial analysts and major brokerage houses.

THE YEAR AHEAD

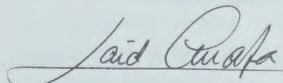
The El Manzala Concession in Egypt will continue to be a major focus, as we conduct more drilling, prove-up additional reserves and tie in production. This will also be an important year in Tunisia, as we prepare to move into a higher-impact exploration phase on our properties.

We will continue to actively seek opportunities for growth through purchase of existing production, acquisition of or farm-in on new concessions, or by merger or acquisition of companies having complementary operations. As well, we are looking at expanding into other areas of North Africa.

With continuing strong commodity prices and success in our drilling program, we expect 2001 will again be a year of strong performance.

I would like to thank retiring directors Mr. Peter Braaten and Mr. Sohail Khan for their contributions to our Board and welcome retiring director Mr. Philip Beck to our management team as Vice President of Engineering and Production. I am pleased to welcome two new directors: Sheik Badr Al Aiban, President and founder of the Delta Group, which is based in Jeddah, Saudi Arabia, and is Centurion's largest single shareholder, and Mr. Gary V. Awad, a senior advisor to the Delta Group.

We thank our employees and consultants for their continued strong commitment to the success of the Company and also to the Board of Directors for their guidance and corporate governance. We thank our shareholders for their support and faith in our ability to create value for Centurion Energy.



Said S. Arrata
President & Chief Executive Officer



Said S. Arrata, P.Eng.
President & Chief Executive Officer

With over thirty years of experience in the oil and gas industry in design, project management, production and drilling engineering, Said S. Arrata has held management positions with major oil companies in Canada and overseas.

He co-founded a major contracting engineering firm that operated in Canada and internationally for nearly two decades. Mr. Arrata is an active member of several professional engineering and industry associations.

EGYPT - AN OVERVIEW

DAILY PRODUCTION

| | |
|-------------|--------------|
| Oil | 652 mbbls/d |
| Condensate | 80 mbbls/d |
| LPG | 39 mbbls/d |
| Natural gas | 2,652 mmcf/d |

PROVEN RESERVES

| | |
|-------------|----------------|
| Oil | 2 billion bbls |
| Natural gas | 51 Tcf |

The oil and gas industry is key to the economy of Egypt, contributing over 10% of the country's GDP. About 22 international oil companies are investing and operating in Egypt, considered one of the most stable countries in North Africa for oil and gas investments. Egypt is a net exporter of crude oil and refined products to African and European countries.

Natural gas is considered the future of Egypt's energy sector and is increasingly in demand for power generation, industrial and commercial activities as well as residential consumers. An attractive gas pricing formula currently returns US \$2.65 per mcf plus world pricing for condensate. To encourage gas exploration, Egypt is expanding the infrastructure of the country's distribution network and developing applications for natural gas to maximize added value.

Centurion operates in Egypt through its wholly-owned subsidiary, Centurion Petroleum Corporation, with an office in Cairo since 1999.

TUNISIA - AN OVERVIEW

DAILY PRODUCTION

| | |
|-------------|------------|
| Oil | 81 mbbls/d |
| Natural gas | 200 mmcf/d |

PROVEN RESERVES

| | |
|-------------|------------|
| Oil | 307 mmbbls |
| Natural gas | 3 Tcf |

Tunisia offers the oil and gas industry an excellent business climate, favourable regulatory policies and beneficial operating terms. Progressive taxation provides the opportunity for investors to recover costs and enables quick pay-outs at a high rate of return.

A total of about 50 domestic and international oil companies are active in Tunisia, also considered among the most stable North African countries for oil and gas investments. The industry contributes over 10% of Tunisia's GDP and provides a major source of foreign currency. Approximately 55% of the areas considered prospective for oil and gas have been leased to date and new permits both onshore and offshore are available. As the industry in Tunisia is quite dynamic, there are also opportunities for farm-ins and asset sales.

Centurion and its predecessor companies have been fully operational in Tunisia since 1996, operating under the umbrella of Ecumed Petroleum.

CENTURION IN EGYPT

LAND HOLDINGS

| Concession | WI (%) | Acreage |
|------------|--------|---------|
| El Manzala | 100 | 420,000 |

El Manzala Concession

The El Manzala Concession currently covers 420,000 acres in the northeast part of the Nile Delta. Centurion Petroleum Corporation, a wholly owned subsidiary of Centurion Energy International Inc., is the 100% owner and operator of this concession. Based on onshore and offshore discoveries in the last five years, the Nile Delta region is proving to hold major gas reserves.

Centurion made one gas discovery, Abu Monkar, in 1999 and has successfully re-entered and completed for production two additional wells in the El Wastani field. Plans to develop the El Wastani field have been finalized and approved by the government.

The Company carried out a 52 km 2D seismic program in the El Manzala Concession and completed a full geological and geophysical evaluation. The new seismic confirmed gas prospects previously indicated by bright spot seismic interpretation. As a result, several prospects and leads were identified and an exploratory drilling program planned for 2001 and 2002 is underway and will test up to seven new prospects. Most of the prospects are located in close proximity to the El Wastani and Abu Monkar gas discoveries and, if successful, could be easily tied in to planned facilities.



EL MANZALA CONCESSION, EGYPT

In cooperation with the Egyptian Ministry of Petroleum, Centurion has taken the lead in the establishment of an Egypt-Canada Oil Committee. Its mandate is to enhance the relationship between the oil industries in Egypt and Canada and facilitate the flow of goods and services between the two countries.

El Wastani Field

Based on the successful re-entry of El Wastani -1 and -2, Centurion submitted a Plan of Development for the El Wastani Field to the Egyptian petroleum authorities in 2000. The Plan was officially approved in December 2000. Centurion anticipates completing construction of a 28 km pipeline by mid 2001. Initial daily gas production is estimated at average rates of 12 million cubic feet per day and 300 barrels of condensate.

Centurion has developed a creative approach to completing the El Wastani field development and drilling programs by establishing financing arrangements with contracting partners in the services sector. Our approach will enable the Company to free up operating capital and aggressively pursue development of the El Wastani and Abu Monkar fields in a timely manner.

EGYPT



Dr. Hany Elsharkawi, P.Eng.
President and General Manager,
Centurion Petroleum Corporation, Egypt

During his extensive career, Hany Elsharkawi has been involved in exploration projects in Canada, United States, Australia, Egypt, United Kingdom, Libya, Tunisia, Yemen, Bulgaria and Venezuela, while working with Shell, Mobil and Canadian Occidental. Prior to joining Centurion, Dr. Elsharkawi was President of Canadian Petroleum North Africa, a wholly owned subsidiary of Canadian Occidental. Dr. Elsharkawi is accredited with the major oil discovery in CanOxy's Masila block in Yemen and other discoveries in Libya, Egypt and Canada.

A drilling rig has been contracted for three wells and, pending results, up to four additional wells on the El Manzala Concession. The first exploration well, El Wastani East -1, began drilling April 20, 2001. With success, discovered gas will be tied in to the El Wastani field gathering facilities.

When El Wastani East -1 drilling is complete, the rig will move to the next location in the Abu Monkar area.

Abu Monkar Field

Centurion has received approval in principle for its Plan of Development for the Abu Monkar area. The Plan calls for additional exploratory wells to be drilled near the Abu Monkar -1 discovery well to further enhance the reserve base prior to commencing development of the area. With exploratory success, Centurion will continue with its plans to construct a 55 km pipeline which will tie in to the national gas line.

2001 Operating Plan

- Complete the development of the El Wastani gas/condensate field. It is anticipated that construction of the field facilities and pipeline will commence during Q2/2001 with start-up of production around mid-year at an initial rate of 12 mmcf/d and 300 bcpd.

- Continue to explore the concession by drilling a minimum of three and up to a total of seven exploratory wells in the Abu Monkar and El Wastani areas. Initiate development of the Abu Monkar field following the results of the drilling program.
- Continue to pursue growth opportunities in Egypt through acquisition, farm-in or participation in bid rounds for new concessions.

PROSPECTS ON EL MANZALA CONCESSION



CENTURION IN TUNISIA

LAND HOLDINGS

| Permit | WI (%) | Acreage (Net) |
|-----------|--------|---------------|
| Grombalia | 75 | 388,284 |
| Mellita | 100 | 864,500 |
| Ezzaouia | 31 | 6,817 |
| El Biban | 74 | 41,673 |
| Robbana | 80 | 9,485 |
| Total | | 1,310,759 |

Al Manzah Field

Centurion is the operator of the Al Manzah field which is located in the Grombalia Permit. The field was discovered by Centurion in November 1998 with the drilling of Al Manzah -1 and received concession status in late 2000. The Company's Plan of Development for the field was approved in June 2000. Drilling of Al Manzah -2 development well commenced in September 2000 and was successfully completed in October 2000. It tested at rates as high as 9,000 bopd and was placed on production at 4,000 bopd.

The reservoirs Centurion has encountered at Al Manzah offer high oil production rates and quick payout. However, due to the fractured nature of the reservoir, the relatively shallow completions have experienced encroachment of gas. Centurion has determined that to achieve effective drainage of the reservoir it will be necessary to drill lower into the

structure. Re-injection of the gas should maintain reservoir pressure and slow the encroachment of gas into the oil producing intervals.

Al Manzah -2 produced an average of 3,700 bopd from October 4, 2000 until January 12, 2001 at which time gas encroachment occurred, resulting in the well being shut in. The well had produced over 350,000 bbls until it was shut in.

A third well, Al Manzah -3, was spudded on February 26, 2001 as a step-out/follow-up well to determine if a separate pressure compartment existed within the overall Al Manzah field. The objectives of this well are to drill downdip from known gas, determine the lowest oil, and access reserves on the eastern flank of the structure. Due to delays caused by rig equipment failure, Al Manzah -3 had not reached total drilling depth at the time of this writing.



GROMBALIA PERMIT,
NORTHERN TUNISIA

TUNISIA



Keith Howells, M.Sc., P. Geol.
President and General Manager,
Ecumed Petroleum, Tunisia

Active in the oil and gas industry for over 24 years with Shell, Amerada and Occidental Oil and Gas Corporation, Keith Howells has been involved in projects in Canada, United Kingdom, Libya, Yemen, Tunisia, Syria, Colombia, Ecuador, Mexico, Peru, Venezuela, India, Pakistan and Bangladesh. Prior to joining Centurion, Mr. Howells was Director, Middle East Acquisitions and Business Development for Occidental.

With success at Al Manzah -3, the next phase in the development of the field could include additional wells on the western flank of the reservoir, deepening Al Manzah -2 and the gas re-injection scheme to maximize recoveries.

Centurion's working interest in the Al Manzah field increased from 37.5% to 75%, as ETAP (Tunisian National Petroleum Company) elected not to participate in further development activities in the field.

The independent engineers' estimate of Centurion's remaining proved and probable reserves for the Al Manzah field is 3.0 million barrels of oil.

Grombalia Exploration Permit

Centurion holds a 75% working interest in the Grombalia Permit. The Permit covers 530,000 gross acres and includes a work requirement for one exploration well by mid-2002 to extend the Permit for an additional four years.

The Belli field, which was abandoned in 1993 after producing approximately 8.5 million barrels of oil, and the Al Manzah field, which has produced 700,000 barrels of oil in only 220 days, are located within the Grombalia Permit. Existing seismic information indicates the presence of sixteen leads. The most prospective leads are located on the southern part of the permit.

The southern prospects are geological look-alikes to the Belli and Al Manzah fields. Centurion is planning to shoot 100 km of seismic in the southern area to confirm closures and select drilling locations. It is anticipated that an exploration well will be drilled by the end of 2001.

El Biban Field

Centurion is the operator of the El Biban offshore oil and gas field and holds a 74% working interest. The Company completed construction of a marine pipeline and onshore processing facility in early 1998 and the field began producing in March 1998.

Average gross production from the field is currently 1,100 barrels of oil and 3.5 million cubic feet of gas per day. In 2000, gross oil production averaged 1,330 bopd. The oil is exported through Centurion's export terminal at Zarzis.

The independent engineers' estimate of Centurion's remaining proved and probable reserves (net) for El Biban is 5.4 million barrels of oil and liquids and 17.3 billion cubic feet of natural gas. Produced gas is currently being flared (see SEEB Project, page 12).

Centurion has developed a detailed reservoir model of the field. The performance of the Company's horizontal well has been very close to forecast, which supports plans to drill a second development well in 2002. The El Biban development well will target additional reserves on the north flank of the field.

Ezzaouia Field

Centurion has a 31.4% working interest in the Ezzaouia onshore oil field. This property was discovered in the early 1980s and has produced over 29 million barrels of oil to date. During 2000, average net production from the field was 700 barrels of oil and 4.0 million cubic feet of gas per day from nine wells. Gross oil production has averaged 2,240 bopd for 2000. The oil is exported through the Company's export terminal at Zarzis. Produced gas is being flared (see SEEB Project, page 12).

A detailed field optimization study is being conducted to evaluate desirable locations for future wells and the potential for secondary recovery. Initial indications suggest increases in both reservoir volume and undeveloped oil reserves.

At year end 2000, the independent engineers' estimate of Centurion's proved and probable reserves (net) for Ezzaouia is 1.9 million barrels of oil and liquids and 2.8 billion cubic feet of natural gas.

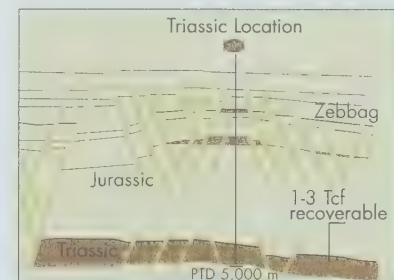
Deep Triassic Prospects

Both the offshore El Biban field, which is currently producing from the Zebbag formation, and the Ezzaouia field, which is producing from Zebbag and Jurassic formations, present opportunities for hydrocarbons in the deep Triassic.

Regional stratigraphic information strongly supports the presence of reservoir-quality Triassic sands in the Ezzaouia/El Biban area. Seismic data indicates large prospects at the Triassic level underlying Centurion's fields.

Robbana Field

Centurion holds an 80% working interest in the Robbana oil field located on the island of Djerba in the Gulf of Gabes. The field is currently producing 80 barrels of oil a day from one well. The oil is trucked to Centurion's nearby Ezzaouia facilities, where it is stored and exported through the Company's export terminal at Zarzis. We continue to be encouraged by the consistent production from this well and are accumulating data to evaluate potential exploration and development plans.



STRUCTURAL CROSS SECTION,
EZZAOUIA FIELD

SEEB Power Project

Through its wholly-owned subsidiary, Societe D'Energy D'El Bibane (SEEB), Centurion plans to build a 25 megawatt natural gas powered electrical generation plant in Tunisia. The plant will utilize natural gas currently being flared at the El Biban and Ezzaouia fields. Estimated cost of the project is US \$27 million.

Since year-end, Centurion has signed a joint development agreement with Caterpillar Power Ventures Inc. which will participate in the SEEB project for a 50% interest. Contracts have been signed for the purchase of the power turbines, plant engineering, procurement and construction and for construction of the transmission line. Terms for the power purchase agreement have been agreed with STEG, the Tunisian national power utility company, and final concession agreements with the Tunisian Ministry of Industry are at an advanced stage. Negotiations for 70% project debt financing are well advanced with a consortium of international banks. The due diligence review by the banks is underway with financial closing expected by mid-2001.

Mellita Permit

Centurion owns a 100% working interest in this permit which is located offshore in the shallow coastal waters of the Gulf of Gabes. In order to fulfill exploration work commitments for the concession, Centurion must reprocess 1,000 km of existing seismic data, acquire 400 km of new seismic and drill one exploratory well.

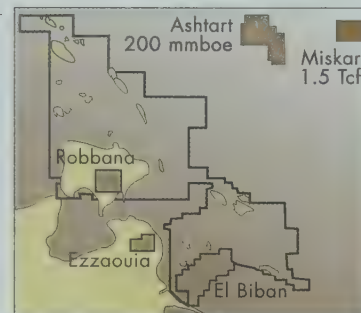
Seismic reprocessing is almost complete and in 2001 Centurion will acquire additional seismic on the

permit. Data reviewed to date enhances the Company's view of prospectivity for this area.

2001 Operating Plans

- Continue with full field development plans in the Al Manzah field.
- Complete seismic acquisition program for the Grombalia Permit and finalize drilling location(s).
- Finalize the Ezzaouia field optimization study and implement a program to increase production from existing reservoirs.
- Finalize a drilling location and contract a rig to drill a horizontal drain on the northern flank of the El Biban field.
- Continue with exploration permit work for Mellita.
- Finalize financial arrangements for the SEEB electric generation project and commence construction.
- Complete a country analysis for potential farm-in, merger and/or acquisition opportunities.

MELLITA PERMIT



CENTURION'S RESERVES

GROSS RESERVES (Centurion W1)
(December 31, 2000)

| | Reserves* | | | | Cumulative Cash Flow (\$ million)** | | | |
|-----------------------|----------------|--------------|-----------------------------|----------------|-------------------------------------|--------------|--------|--------|
| | Oil (mmstb) | Gas (bcf) | Conden- sate (mmbbls) | Boe (mmstb) | Undis- counted | Discounted @ | | |
| | | | | | | 10% | 15% | 20% |
| Proved developed | 3.19 | - | - | 3.19 | 51.5 | 35.19 | 30.28 | 26.58 |
| Proved undeveloped | 2.83 | 55.6 | 0.9 | 12.97 | 84.57 | 46.58 | 35.88 | 28.06 |
| Total Proved | 6.02 | 55.6 | 0.88 | 16.16 | 136.07 | 81.77 | 66.16 | 54.64 |
| Probable | 3.84 | 73.98 | 0.7 | 16.89 | 120.38 | 75.85 | 61.71 | 50.94 |
| Proved + Probable | 9.86 | 129.58 | 1.58 | 33.05 | 256.45 | 157.62 | 127.87 | 105.58 |
| Less 1/2 Probable | 1.91 | 37.01 | 0.35 | 8.44 | 60.19 | 37.93 | 30.86 | 25.47 |
| Proved + 1/2 Probable | 7.95 | 92.57 | 1.23 | 24.61 | 196.26 | 119.69 | 97.01 | 80.11 |

As evaluated by Adams Pearson Associates Inc. report effective December 31, 2000

- * 20.9 bcf of gas reserves and 0.42 mmbbls of condensate in Tunisia (Proved plus 1/2 Probable) are dependent on the completion of the Company's natural gas fueled electric power generation project which is under construction.
- ** The cash flow amounts were determined on an after tax basis using present value discounting at constant prices for oil based on US \$22.50 Brent per bbl. The constant price used for gas sales in Tunisia was US \$0.33 per mcf and for gas sales in Egypt, US \$2.65 per mcf. Net cash flow (after income taxes) for Tunisian gas includes a share of profits from the sale of electricity.



Philip Beck, P.Eng.
Vice President, Engineering & Production

A senior oil industry manager with 27 years of experience, Philip Beck has been associated with Centurion Energy since 1999. His career includes 15 years with Unocal as a Petroleum Engineer, Commercial and Planning Manager, and Engineering/Project Manager. Mr. Beck's operations experience was gained in a number of geographic locations, including the North Sea, former Soviet Union, Middle East and North Africa.



Barry W. Swan, CA
Senior Vice President & Chief
Financial Officer

During his professional and entrepreneurial career, Barry Swan has held key positions with energy companies in North America with operations in the North Sea, Indonesia, Yemen, Canada and the United States. He was one of the founders of Sunlite Oil Company and Boss Energy Ltd., both of which were merged into Canadian Leader Energy Inc. and eventually merged to form Centurion Energy. Mr. Swan earned his designation as a chartered accountant in 1971 and is a member of the Institute of Chartered Accountants of Alberta.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis addresses operations, financial results, corporate events, business risks and the Company's outlook for the future.

OPERATIONS

In 2000, Centurion's operations were focused on activities required to proceed to the next stage of development in both Egypt and Tunisia. Production volumes were lower in 2000 due to normal field declines and as a result of shutting in production at Al Manzah until completion of the third well. We expect the Company's production capability to increase by year-end 2001.

Production Summary

| | 2000 | 1999 |
|--------------------|---------|---------|
| Average bopd | 2,100 | 2,300 |
| Net Production bbl | 774,000 | 830,000 |

RESERVES

Additions to reserves for the year consisted of technical reserves and increases in working interests which totalled 200,000 boe. Subtracting production for the year resulted in a net reduction in corporate reserves of 500,000 boe.

Reserves (proved & 1/2 probable) (mboe)
(6 mcf = 1 bbl)

| | Tunisia | Egypt | Total |
|------|---------|--------|--------|
| 2000 | 12,000 | 12,600 | 24,600 |
| 1999 | 11,700 | 13,500 | 25,200 |

Finding and Development Costs

The cycle for finding and development of Centurion's fields is longer than one year. Therefore, the analysis of finding and development costs is a series of estimates for the fields, first in the exploration stage and then in the development phase. When we make an exploration discovery, we report a finding and development cost in the year of discovery based upon the best estimate of costs to develop the reserves assigned to the discovery in our initial engineered

reserve predictions. As the field is developed and more information is accumulated, we update our estimate of finding costs for full field development. The areas that we have in progress at present are the Al Manzah and El Biban fields in Tunisia and the El Manzala Concession in Egypt. Our estimate of finding and development costs for these operations was approximately \$4.00 per boe in 2000, based on proved and 1/2 probable reserves, compared to \$3.00 per boe in 1999.

STATEMENT OF EARNINGS

Revenue

Oil and gas sales, net of royalties, for 2000 amounted to \$27,452,000 compared to \$19,794,000 for 1999. The average price realized for production in 2000 was \$38.96 per bbl compared to \$25.12 per bbl in 1999.

Other Income

Other income consists primarily of interest earned on short term bank investments.

Royalty Expense

Royalty expense for 2000 was \$2,664,000 (10% of sales) compared to \$1,851,000 (9% of sales) for 1999. Royalty expense per barrel for 2000 was \$3.44 compared to \$2.15 in 1999. The increase in royalty expense per barrel in 2000 is due to higher commodity prices.

Operating Expense

Operating expense for 2000 amounted to \$4,047,000 (\$5.23 per bbl) compared to \$4,815,000 (\$5.28 per bbl) for 1999. Per barrel operating costs include a component of district office overhead.

Netback

The netback on Company production (revenue less royalties and operating costs) was \$23,405,000 (\$30.29 per bbl) for 2000 compared to \$14,979,000 (\$17.69 per bbl) for 1999.

Netback (per bbl)

| | 2000 | 1999 |
|-------------------|----------|----------|
| Revenue | \$ 38.96 | \$ 25.12 |
| Royalty Expense | (3.44) | (2.15) |
| Operating Expense | (5.23) | (5.28) |
| Netback | \$ 30.29 | \$ 17.69 |

General and Administrative Expense

The expense for 2000 was \$1,702,000 (\$1,143,000 capitalized) compared to \$1,404,000 (\$916,000 capitalized) for 1999. The increase in expenses for 2000 is related to costs of personnel and travel for reviewing new prospects that did not result in a new capital asset; therefore, these costs are expensed rather than capitalized.

Interest and Finance Costs

Interest and other costs related to the convertible notes amounted to \$209,000 in 2000 compared to \$1,231,000 for 1999. The significant decrease in expense is due to repayment of the notes amounting to US \$1.6 million in March 2000 and conversion of the remaining US \$1.1 million convertible notes into 2,115,385 common shares of the Corporation in September 2000. At that time the final interest payment due to the note holders was paid.

Depreciation, Depletion and Amortization

The provision for 2000 was \$5,138,000 (\$6.64 per bbl) compared to \$3,848,000 (\$4.64 per bbl) for 1999. The increase in per barrel amounts is due to increased estimates of future capital costs for development of our producing fields and actual capital additions over the past year resulting in a higher cost base for depletion.

Cash Flow and Net Earnings

Cash flow from operations for 2000 was \$19,059,000 (\$0.31 per share basic and \$0.29 per share fully diluted) compared to \$12,832,000 (\$0.25 per share basic and \$0.21 fully diluted) in 1999.

Earnings for 2000 were \$10,179,000 (\$0.17 per share basic and \$0.16 per share fully diluted) compared to \$4,487,000 (\$0.09 per share basic and \$0.08 fully diluted) in 1999.

Liquidity, Capital Resources and Capital Expenditures

Capital expenditures for the year 2000 totaled \$10,647,000 including \$7,608,000 spent in Tunisia and \$3,039,000 spent in Egypt. The expenditures in Tunisia were comprised of Al Manzah -2 drilling costs, pre-drilling costs of Al Manzah -3, final costs of the Belli -1A dry hole, Ezzaouia work-over costs, continuation of Al Manzah -1 production, costs related to the SEEB electric power project, Mellita data review and general geological and geophysical programs. The expenditures in Egypt were comprised of El Wastani -2 re-entry costs, costs of technical data and preparation costs for the El Wastani plan of development and general geological and geophysical programs.

Cash on hand at December 31, 2000, was \$11,536,000 compared to \$5,018,000 at December 31, 1999. Centurion had working capital of \$12,390,000 at December 31, 2000, compared to working capital of \$955,000 at December 31, 1999. The increase in working capital is due to the conversion to equity of the remaining US \$1.1 million of notes in September 2000, from additional Al Manzah production in the fourth quarter and the strong commodity prices attained throughout the year.

NET ASSET VALUE PER SHARE

Constant Dollar Pricing
US \$22.50

| | boe (mm) | NPVAIT @10% (\$ mm) | Basic (\$ per share) | Fully Diluted (\$ per share) |
|--------------------------------------|-------------|------------------------|-------------------------|---------------------------------|
| Proved Reserves | 16.2 | 81.8 | 1.31 | 1.19 |
| 1/2 Probable Reserves | 8.4 | 37.9 | .61 | .55 |
| Total Proved & 1/2 Probable Reserves | 24.6 | 119.7 | 1.92 | 1.74 |
| Exploration Land | | - | - | - |
| | | 119.7 | 1.92 | 1.74 |
| Dilution Cash* | | 5.7 | - | .08 |
| Working Capital | | 12.4 | .20 | .18 |
| Net Asset Value Per Share | | | 2.12 | 2.00 |

Based on Adams Pearson Associates Inc. report on the Company's properties at December 31, 2000

* Cash received on exercise of stock options and warrants

CORPORATE EVENTS

The Company repaid US \$1.6 million of the 8% convertible notes due March 26, 2000. The remaining US \$1.1 million of the convertible notes was extended to September 30, 2000 under the same terms and conditions. In September 2000, the remaining notes were converted into 2,115,385 common shares of the Company. The effective conversion price was \$0.77 per share. In December 2000, the Company closed a private placement for the issuance of 3,409,091 units at \$0.88 per unit for gross proceeds of \$3,000,000. Each unit consisted of one common share and one half warrant. Each whole warrant entitles the holder to purchase one additional common share at \$1.20 until December 22, 2003. Share issue expenses were \$195,000. Under the terms of Centurion's Normal Course Issuer Bid, the Company repurchased 2,120,500 common shares in 2000. The average repurchase price was \$0.79 per share.

BUSINESS RISK ASSESSMENT

There are a number of inherent risks associated with oil and gas operations and development. Many of these risks are beyond the control of management. The following outlines some of the principal risks and their potential impact to the Company.

Foreign Investments

All of the Company's oil and gas operations and related assets are located outside Canada. These operations are subject to the risks associated with foreign investment including tax increases, royalty increases, renegotiations of contracts, currency exchange fluctuations and political uncertainty. Both jurisdictions in which the Company operates, Tunisia and Egypt, have well established fiscal regimes and there have been some recent improved fiscal terms to encourage foreign investment. Both countries are politically stable and generally have effective control over extremist groups. The US dollar is the functional currency in both operating areas. Centurion is paid in US dollars for the sale of its production except for a 20 percent portion of the Tunisian oil production, which is dedicated to the domestic market. The production sold under the domestic market obligation receives a price equal to 90% of the US dollar price for the Brent based export sales but the proceeds are paid in Tunisian dinars which are utilized for dinar expenditures such as local salaries. The Tunisian dinar has continued to depreciate during the last year, but this has not had a negative effect on the Company, as our revenues are denominated in US funds.

As operations are primarily carried out in US dollars, the main exposure to currency exchange fluctuations is the conversion to equivalent Canadian funds for reporting purposes. Based upon projected 2001 cash flow and a Canadian dollar exchange rate between US \$0.63 and US \$0.66, the effect for each \$0.01 change in exchange rate is less than one-quarter cent per share, fully diluted.

Commodity Prices

Centurion's oil and gas prices are affected by factors such as supply and demand, oil quality and transportation adjustments. During 2001, the Company expects to sell only oil from its Tunisian operations. Centurion is paid a Brent-based price, usually US \$1.00 to US \$1.50 less than WTI. Brent crude oil prices averaged US \$28 in 2000 and closed the year at US \$22.50. Based on projected 2001 production, each increase or decrease of US \$1.00 in the WTI price has a Cdn \$0.015 per share effect fully diluted on cash flow. Centurion also expects to commence gas production from its Egyptian reserves in 2001. These gas sales will be priced according to a gas sales agreement which is linked to the price of Brent crude oil. Prices for Brent crude oil would have to fall below US \$20 to impact this gas pricing. A price US \$1.00 below US \$20 Brent would have approximately one-half cent per share effect on cash flow.



M. N. (Mike) Zayat

Vice President, New Business

Before joining Centurion, Mike Zayat was Exploration Venture Manager, Middle East with Mobil Corporation. With over 30 years of industry experience gained in Turkey, the Middle East and Canada, Mr. Zayat's overseas assignments included planning, conducting and managing exploration and production programs, negotiations, capital project development, strategic planning, and developing and nurturing relationships with foreign governments and national oil company officials. At Centurion, he is responsible for creating sustainable long term growth for the Company by maximizing the value of current assets and by capturing new upstream opportunities in prioritized areas of interest.

Competition

The oil and gas industry is highly competitive. The Company believes that it is well positioned in Tunisia and Egypt, in terms of Company-owned infrastructure, excellent land base and significant reserves, to compete strongly with other companies operating internationally.

Environment

The Company has an ongoing program to abandon and reclaim wells and facilities in accordance with government regulations. Centurion maintains adequate insurance for environmental risks.

OUTLOOK

Centurion has an excellent portfolio of exploration and development projects with a good balance between low and high risk projects, and between natural gas and oil projects.

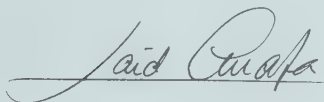
In Tunisia, development of the Al Manzah oil field will continue; additional proven reserves await development in the El Biban field; and deep Triassic exploration targets are being confirmed. The SEEB Power Project is underway. In Egypt, the El Wastani natural gas field is expected to be onstream by mid-year and an exploration drilling program is underway.

Capital spending for 2001 is projected at \$27 million which will be funded from cash reserves, 2001 cash flow, and modest bank debt for the El Wastani pipeline.

MANAGEMENT'S REPORT

The management of Centurion Energy International Inc. is responsible for the integrity of its reported financial data. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements in accordance with generally accepted accounting principles in Canada. Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures, and exercises its best judgement in order that such statements reflect fairly the consolidated financial position, results of operations and cash flows of Centurion. The financial information contained elsewhere in this report has been reviewed to insure consistency with that in the Consolidated Financial Statements.

In order to gather and control financial data, Centurion has established accounting and reporting systems supported by internal controls. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the records are reliable for preparing consolidated financial statements and other data, and maintaining accountability for assets.



Said S. Arrata
President &
Chief Executive Officer



Barry W. Swan
Senior Vice President &
Chief Financial Officer

April 15, 2001
Calgary, Alberta

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
CENTURION ENERGY INTERNATIONAL INC.

We have audited the consolidated balance sheet of Centurion Energy International Inc. as at December 31, 2000 and 1999 and the consolidated statements of income and retained earnings and cash flows for each of the years in the two year period ended December 31, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



April 6, 2001
Calgary, Alberta

Chartered Accountants

CENTURION ENERGY INTERNATIONAL INC.
Consolidated Balance Sheets

As at December 31, 2000 and 1999
(expressed in Canadian Dollars)

| | 2000 | 1999 <i>(restated - note 2)</i> |
|---|----------------------|------------------------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 11,536,000 | \$ 5,018,000 |
| Accounts receivable | 8,645,000 | 7,312,000 |
| Deposits and prepaids | 589,000 | 648,000 |
| | <u>20,770,000</u> | <u>12,978,000</u> |
| Capital assets (note 3) | 60,496,000 | 51,366,000 |
| Deferred financing costs | - | 46,000 |
| Future tax asset (notes 2 and 9) | 19,970,000 | 26,526,000 |
| | <u>\$101,236,000</u> | <u>\$ 90,916,000</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 5,350,000 | \$ 7,824,000 |
| Income taxes payable | 3,030,000 | 152,000 |
| Convertible notes (note 5) | - | 4,047,000 |
| | <u>8,380,000</u> | <u>12,023,000</u> |
| Reinvestment reserve (note 4) | 5,249,000 | 4,939,000 |
| Provision for site restoration costs | 1,511,000 | 1,460,000 |
| Deferred credit (note 9) | 8,539,000 | 11,342,000 |
| | <u>23,679,000</u> | <u>29,764,000</u> |
| Shareholders' Equity | | |
| Capital stock (note 6) | 61,296,000 | 58,854,000 |
| Contributed surplus (note 7) | 479,000 | - |
| Equity portion of convertible notes (note 5) | - | 187,000 |
| Foreign currency translation adjustment (note 1(b)) | 3,492,000 | - |
| Retained earnings | 12,290,000 | 2,111,000 |
| | <u>77,557,000</u> | <u>61,152,000</u> |
| | <u>\$101,236,000</u> | <u>\$ 90,916,000</u> |

Approved by the Board of Directors



Derrick R. Armstrong
Director



Barry W. Swan
Director

CENTURION ENERGY INTERNATIONAL INC.

Consolidated Statements of Income and
Retained EarningsFor the Years Ended December 31, 2000 and 1999
(expressed in Canadian Dollars)

| | 2000 | 1999 <i>(restated - note 2)</i> |
|---|----------------------|------------------------------------|
| Revenue | | |
| Oil and gas - net of royalties | \$ 27,452,000 | \$ 19,794,000 |
| Other income | 562,000 | 121,000 |
| | <u>28,014,000</u> | <u>19,915,000</u> |
| Expenses | | |
| Operating | 4,047,000 | 4,815,000 |
| Depletion, depreciation and amortization | 5,138,000 | 3,848,000 |
| General and administrative | 1,702,000 | 1,404,000 |
| Interest | 140,000 | 656,000 |
| Amortization of discount on convertible notes | 23,000 | 192,000 |
| Amortization of deferred financing costs | 46,000 | 383,000 |
| Foreign exchange loss (gain) | <u>(34,000)</u> | <u>445,000</u> |
| | <u>11,062,000</u> | <u>11,743,000</u> |
| Income before income taxes | <u>16,952,000</u> | <u>8,172,000</u> |
| Income taxes (note 9) | | |
| Current | 3,020,000 | 230,000 |
| Future | 3,753,000 | 3,455,000 |
| | <u>6,773,000</u> | <u>3,685,000</u> |
| Income for the year | <u>10,179,000</u> | <u>4,487,000</u> |
| Retained earnings (deficit) - Beginning of year | 2,111,000 | (2,152,000) |
| Inducement charge on conversion of notes | <u>—</u> | <u>(224,000)</u> |
| Retained earnings - End of year | <u>\$ 12,290,000</u> | <u>\$ 2,111,000</u> |
| Basic earnings per share | <u>\$ 0.17</u> | <u>\$ 0.09</u> |
| Fully diluted earnings per share | <u>\$ 0.16</u> | <u>\$ 0.08</u> |

CENTURION ENERGY INTERNATIONAL INC.
Consolidated Statements of Cash Flows

For the Years Ended December 31, 2000 and 1999
(expressed in Canadian Dollars)

| | 2000 | 1999 <i>(restated - note 2)</i> |
|---|---------------|------------------------------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Income for the year | 10,179,000 | 4,487,000 |
| Items not affecting cash | | |
| Depletion, depreciation and amortization | 5,138,000 | 3,848,000 |
| Increase in reinvestment reserve | — | 46,000 |
| Amortization of deferred financing costs | 46,000 | 383,000 |
| Amortization of foreign exchange loss (gain) | (80,000) | 197,000 |
| Amortization of discount on convertible notes | 23,000 | 192,000 |
| Non-cash interest payment on convertible notes | — | 224,000 |
| Future income taxes | 3,753,000 | 3,455,000 |
| Cash flow from operations | 19,059,000 | 12,832,000 |
| Changes in non-cash operating working capital items (note 11) | (870,000) | (2,620,000) |
| | 18,189,000 | 10,212,000 |
| Investing activities | | |
| Petroleum and natural gas property expenditures | (10,647,000) | (11,696,000) |
| Financing activities | | |
| Redemption of convertible notes | (2,359,000) | — |
| Issue of capital stock, net of issue costs | 2,852,000 | 4,811,000 |
| Repurchase of capital stock | (1,749,000) | — |
| | (1,256,000) | 4,811,000 |
| Foreign currency translation | 232,000 | — |
| Increase in cash | 6,518,000 | 3,327,000 |
| Cash - Beginning of year | 5,018,000 | 1,691,000 |
| Cash - End of year | \$ 11,536,000 | \$ 5,018,000 |
| Basic cash flow from operations per share | \$ 0.31 | \$ 0.25 |
| Fully diluted cash flow from operations per share | \$ 0.29 | \$ 0.21 |

For the Years Ended December 31, 2000 and 1999
(expressed in Canadian Dollars)

1 SUMMARY OF ACCOUNTING POLICIES

a) *Consolidation*

These financial statements include the accounts of Centurion Energy International Inc. (the "Company") and its wholly owned subsidiaries: Ecumed Petroleum Grombalia, Ltd., Ecumed Petroleum Tunisia, Ltd., Ecumed Petroleum Zarzis, Ltd., Ecumed Petroleum Corporation, Eagle Holdings (Barbados) Limited, Centurion Petroleum Corporation, Espanada Resources Corporation, Durham Petroleum Limited, Societe d'Electricite d'El Bibane, 585877 Alberta Ltd. and 585882 Alberta Ltd.

b) *Foreign currency translation*

The Company translates foreign currency denominated transactions and the financial statements of operationally and financially dependent foreign operations into Canadian dollars using the temporal method. Monetary assets and liabilities are translated at year end rates. Non-monetary assets and liabilities are translated at rates in effect on the date of the transactions. Revenue and expenses are translated at average rates in effect during the year with the exception of depreciation and amortization which are translated at historic rates. Exchange gains and losses on translation of current monetary items are reflected in income immediately. Exchange gains and losses on translation of non-current monetary items are deferred and amortized over the term of the non-current monetary item.

Effective January 1, 2000, the Company adopted the self-sustaining method of accounting for operations in Tunisia. The adoption of the self-sustaining method was necessitated by the fact that the Tunisian subsidiaries were no longer financially and operationally dependent upon the Canadian parent company. Under the self-sustaining method of foreign currency translation, assets and liabilities are translated into Canadian dollars at period end rates and income and expenses are translated into Canadian dollars at average rates in effect during the period. Exchange gains and losses on translation are reflected as a separate component of shareholders' equity.

c) *Petroleum and natural gas properties and related depletion and amortization*

The Company follows the full cost method of accounting, whereby all costs incurred in exploring for and developing oil and gas reserves are capitalized. Such expenditures include land acquisition costs, geological and geophysical expenses, carrying charges for unproved properties, costs of drilling both productive and non-productive wells, gathering and production facilities and general and administrative costs directly related to exploration and development activities. Capitalized costs are accumulated on a country-by-country basis and are depreciated and depleted using the unit of production method based upon estimated proved reserves. Natural gas reserves are converted to equivalent barrels of oil on the basis of their relative energy content (6 mcf equals 1 barrel). Costs directly associated with the acquisition and evaluation of unproved properties are initially excluded from the computation of depletion. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered impaired, the cost of the property or the amount of the impairment is added to all other capitalized costs subject to depreciation and depletion.

For the Years Ended December 31, 2000 and 1999
(expressed in Canadian Dollars)

The Company calculates a ceiling test whereby the net capitalized costs of properties and the future tax asset, less the provision for site restoration costs and deferred credit, cannot exceed an amount equal to the estimated undiscounted value of future net revenues from proved oil and gas reserves based on current prices and costs, after deducting estimated future general and administrative expenses, future removal and site restoration costs, financing costs, and income taxes, all undiscounted and unescalated.

Sales of oil and gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized unless such adjustments would alter the rate of depletion and amortization by more than twenty percent.

- d) *Office furniture and equipment and related amortization*
The Company provides for amortization on office furniture and equipment using the declining balance method at annual rates of 20 - 30%.
- e) *Joint ventures*
Substantially all of the Company's exploration and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.
- f) *Site restoration costs*
Estimated future site restoration costs are provided for over the life of the proved reserves on a unit of production basis. Site restoration expenditures are charged to the accumulated provision accounts as incurred.
- g) *Revenue recognition*
Revenues from the sale of oil and gas are recorded, net of royalties, when title passes to the customer.
- h) *Earnings and cash flow per share*
Per share information is calculated on the basis of the weighted average number of common shares outstanding during the year. Fully diluted per share information assumes conversion of options, warrants and notes at the beginning of the year or date of issue, if later.
- i) *Stock-based compensation plans*
The Company has an incentive share option plan which is described in Note 8. No compensation expense is recognized in respect of stock options issued under this plan. Any consideration paid on exercise of stock options is credited to share capital.
- j) *Financial instruments*
Canadian accounting standards require the disclosure of the fair value of financial assets and liabilities. The Company's financial assets at December 31, 2000 comprise cash and accounts receivable while its financial liabilities consist of accounts payable. Due to the current nature of these items, fair value is considered to be equal to book value.

For the Years Ended December 31, 2000 and 1999
(expressed in Canadian Dollars)

k) *Measurement uncertainty*

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

l) *Income taxes*

The Company follows the liability method of accounting for income taxes. Under this method, future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

m) *Comparative amounts*

Certain comparative amounts have been reclassified to conform with the presentation format adopted in the current year.

2 CHANGE IN ACCOUNTING POLICY

Effective January 1, 2000, the Company changed from the deferral method of accounting for income taxes to the liability method in accordance with the new standard set by the Canadian Institute of Chartered Accountants. The change was applied retroactively and resulted in the following adjustments to the 1999 financial statements.

| | December 31, 1999 | | |
|----------------------------|---------------------------|---------------|---------------|
| | As originally reported | Adjustments | As restated |
| Future tax asset | \$ – | \$ 26,526,000 | \$ 26,526,000 |
| Capital assets | 66,009,000 | (14,643,000) | 51,366,000 |
| Deferred credit | – | 11,342,000 | 11,342,000 |
| Retained earnings | 322,000 | 1,789,000 | 2,111,000 |
| Future income tax expense | 1,248,000 | 2,207,000 | 3,455,000 |
| Income for the year | 5,285,000 | (798,000) | 4,487,000 |
| Earnings per share - basic | 0.10 | (0.01) | 0.09 |

The change in accounting policy had the effect of increasing income for the year ended December 31, 2000 by \$1,086,000.

For the Years Ended December 31, 2000 and 1999
(expressed in Canadian Dollars)

3 CAPITAL ASSETS

| | 2000 | | |
|---|----------------------|-----------------------------|----------------------|
| | Cost | Accumulated amortization | Net |
| Petroleum and natural gas properties and production equipment | \$ 68,937,000 | \$ 14,070,000 | \$ 54,867,000 |
| Non-petroleum and natural gas land | 1,281,000 | — | 1,281,000 |
| Other capital assets | 5,112,000 | 764,000 | 4,348,000 |
| | <u>\$ 75,330,000</u> | <u>\$ 14,834,000</u> | <u>\$ 60,496,000</u> |
| | 1999 | | |
| | Cost | Accumulated amortization | Net |
| Petroleum and natural gas properties and production equipment | \$ 56,298,000 | \$ 8,937,000 | \$ 47,361,000 |
| Non-petroleum and natural gas land | 1,205,000 | — | 1,205,000 |
| Other capital assets | 3,343,000 | 543,000 | 2,800,000 |
| | <u>\$ 60,846,000</u> | <u>\$ 9,480,000</u> | <u>\$ 51,366,000</u> |

Approximately 35% of the Company's proved reserves in Tunisia are dependent on the completion of a natural gas powered electrical generation facility. The Company has signed a joint development agreement with the development affiliate of a power turbine supplier. The engineering and purchase of major components of the planned 25 megawatt plant are underway with notice to proceed having been given to the supplier of the power turbines and the engineering, procurement and construction contractor. Negotiations for project financing of the project and an agreement for the sale of the power that will be generated are at an advanced stage.

As at December 31, 2000, petroleum and natural gas properties include \$3,222,000 (1999 - \$3,456,000) in respect of unproved properties in Tunisia which have been excluded from depletion calculations. Petroleum and natural gas properties also include \$15,578,000 (1999 - \$12,539,000) in respect of expenditures in Egypt which are not subject to depletion as production has not yet commenced in that country. These expenditures include \$1,258,000 incurred during 2000 in respect of personnel, office and administrative costs directly related to establishing and maintaining operations in Egypt.

For the Years Ended December 31, 2000 and 1999
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As at December 31, 2000 other capital assets include \$3,140,000 (1999 - \$2,220,000) in respect of assets under construction which has been excluded from depreciation calculations.

Head office general and administrative costs capitalized during 2000 were \$1,143,000 (1999 - \$916,000).

4 REINVESTMENT RESERVE

Tunisian taxation law permits eligible companies to reduce their taxable income by up to 20% by participating in a special reinvestment program. Under the program until amended on August 20, 1999, an amount equal to 25% of the reduction in taxable income had to be paid into the capital of a Tunisian subsidiary within five years and the balance of 75% had to be paid into capital within ten years. Any amount not invested is reincorporated into taxable income. The subsidiary must expend the capital on an eligible investment.

The Company's reinvestment reserve, in the amount of \$5,249,000 (1999 - \$4,939,000), represents the amount of taxes, excluding interest, that would be payable should the required investments not be made. Subsequent to year end, the Company paid up capital which eliminates approximately \$4.6 million of the reserve.

5 CONVERTIBLE NOTES

On March 26, 1998, the Company closed a private placement of \$9,200,000 (US \$6,500,000) of 8% convertible notes (the "Notes"). The Notes had a term of two years from March 26, 1998, bore interest on the principal amount of the Notes at the rate of 8% per annum and were convertible, at the option of the holder, into the common shares of the Company at a conversion price of US \$0.47 until March 26, 1999 and U.S. \$0.52 thereafter until March 26, 2000. A maximum of 12,500,000 common shares of the Company were issuable pursuant to the conversion of the Notes.

As the Notes were considered to be compound financial instruments, the liability component and the equity component were presented separately, as determined at March 26, 1998. The Company valued the equity component of the Notes using the residual value of equity component method, whereby the liability component is measured first using the market interest rate, for comparable instruments having no conversion rights. The difference between the proceeds of the Notes issued and the value of the liability was assigned to the equity component. The resulting liability and equity values determined using this method, based on a 10.5% rate, were \$8,750,000 and \$450,000 respectively. Over the term to maturity, the debt discount of \$450,000 was amortized such that at maturity, the liability was reflected at its principal amount.

During October 1999, \$5,500,000 (US\$ 3,800,000) of the Notes were converted to 7,307,692 common shares. In addition 389,340 common shares were issued at an attributed value of \$224,000 as an inducement to convert the Notes.

In March 2000, \$2,359,000 (US \$1,600,000) of the Notes were repaid and an amount of \$111,000 attributed to the equity component of such Notes was transferred to contributed surplus. The remaining \$1,631,000 (US \$1,100,000) of Notes were extended to September 30, 2000 under the same terms. At September 30, 2000, the remaining Notes were converted into 2,115,385 common shares.

CENTURION ENERGY INTERNATIONAL INC.
Notes to Consolidated Financial Statements

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The convertible notes liability comprises the following amounts:

| | 2000 | 1999 |
|--|-------------|---------------------|
| Redemption value (1999 - US \$2,700,000) | \$ - | \$ 3,920,000 |
| Deferred foreign exchange gain | - | 150,000 |
| Unamortized discount | - | (23,000) |
| Convertible notes liability | <u>\$ -</u> | <u>\$ 4,047,000</u> |

6 CAPITAL STOCK

Authorized

Unlimited number of common shares

Unlimited number of preferred shares which may be issued in one or more series (none outstanding)

Issued and outstanding

| | Common shares | |
|--|---------------------|----------------------|
| | Number of shares | Stated value |
| Balance at December 31, 1998 | 44,226,875 | \$ 48,050,000 |
| Issued for cash by private placement | 8,771,930 | 5,000,000 |
| Issued on conversion of notes | 7,307,692 | 5,545,000 |
| Issued for interest payment on notes | 389,341 | 224,000 |
| Issued as an inducement to convert notes | 389,340 | 224,000 |
| Issued on exercise of options | 100,000 | 40,000 |
| Share issue costs | - | (229,000) |
| Balance at December 31, 1999 | 61,185,178 | 58,854,000 |
| Buybacks pursuant to share repurchase plan | (2,120,500) | (2,043,000) |
| Issued on exercise of options | 88,333 | 47,000 |
| Issued on conversion of notes | 2,115,385 | 1,631,000 |
| Issued for cash by private placement | 3,409,091 | 3,000,000 |
| Share issue costs | - | (195,000) |
| Share repurchase costs | - | (74,000) |
| Equity portion of convertible notes | - | 76,000 |
| Balance at December 31, 2000 | <u>64,677,487</u> | <u>\$ 61,296,000</u> |

For the Years Ended December 31, 2000 and 1999
(expressed in Canadian Dollars)

In accordance with a Normal Course Issuer Bid filed with the Toronto Stock Exchange on December 15, 1999, the Company was permitted to purchase and cancel up to 3,054,204 of its common shares prior to December 14, 2000. A total of 1,632,500 shares were repurchased and cancelled under this bid at an average cost of \$0.79 per share. On December 19, 2000, the Normal Course Issuer Bid was reinstated and the Company is permitted to purchase and cancel a further 3,103,114 of its common shares prior to December 18, 2001. At December 31, 2000, 488,000 have been repurchased under the new bid.

Warrants

The Company issued 1,704,546 warrants as part of the private placement share issue during the year. Each warrant entitles the holder to purchase one common share of the Company at a price of \$1.20 until December 22, 2003.

7 CONTRIBUTED SURPLUS

| | 2000 | 1999 |
|---|------------|------|
| Balance - Beginning of year | \$ — | \$ — |
| Equity portion of redeemed convertible notes | 111,000 | — |
| Common shares repurchased at a discount to carrying value | 368,000 | — |
| Balance - End of year | \$ 479,000 | \$ — |

8 INCENTIVE SHARE OPTION PLAN

The Company has a share option plan (the "Plan") for directors, officers, employees and consultants of the Company and its subsidiaries. The Plan provides that the aggregate number of common shares which may be reserved for issuance shall not exceed 6,000,000 common shares and that the aggregate number of common shares which may be reserved for issuance to any one individual shall not exceed 5% of the outstanding shares. The Plan is administered by the Board of Directors. The exercise price of the common shares covered by the issued stock options is determined by the directors but cannot be less than the trading price the day before the options are granted. The exercise period of the options is fixed by the Board of Directors and is not to exceed the maximum period permitted by the Toronto Stock Exchange. Vesting rights are determined at the discretion of the Board of Directors.

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Notes to Consolidated Financial Statements

For the Years Ended December 31, 2000 and 1999
(expressed in Canadian Dollars)

The following is a summary of changes in outstanding stock options for the years ended December 31, 2000 and 1999:

| | 2000 | | 1999 | |
|-----------------------------------|---------------|--|---------------|--|
| | Share options | \$ Weighted- average exercise price | Share options | \$ Weighted- average exercise price |
| Outstanding - Beginning of year | 3,133,000 | 0.89 | 3,333,000 | 0.89 |
| Granted | 2,055,000 | 0.65 | 160,000 | 0.46 |
| Exercised | (88,333) | 0.53 | (100,000) | 0.40 |
| Forfeited | (426,334) | 1.00 | (260,000) | 0.80 |
| Outstanding - End of year | 4,673,333 | 0.78 | 3,133,000 | 0.89 |
| Options exercisable - End of year | 4,374,999 | 0.79 | 2,941,334 | 0.91 |

The following table summarizes information about stock options outstanding at December 31, 2000:

| Options outstanding | | | Options exercisable | |
|----------------------|------------------------|---|------------------------|---|
| \$ Exercise price | Options outstanding | Weighted- average remaining contractual life in years | Options exercisable | Weighted- average remaining contractual life in years |
| 0.40 | 620,000 | 2.4 | 620,000 | 2.4 |
| 0.46 | 125,000 | 3.3 | 83,333 | 3.3 |
| 0.53 | 133,333 | 4.4 | 33,333 | 4.4 |
| 0.57 | 470,000 | 4.0 | 463,333 | 4.0 |
| 0.58 | 750,000 | 4.3 | 750,000 | 4.3 |
| 0.67 | 25,000 | 4.7 | 8,333 | 4.7 |
| 0.70 | 50,000 | 2.0 | 50,000 | 2.0 |
| 0.76 | 100,000 | 2.4 | 100,000 | 2.4 |
| 0.84 | 600,000 | 4.6 | 466,667 | 4.5 |
| 1.08 | 1,800,000 | 1.5 | 1,800,000 | 1.5 |
| | 4,673,333 | | 4,374,999 | |

For the Years Ended December 31, 2000 and 1999
(expressed in Canadian Dollars)

9 INCOME TAXES

The difference between the income tax provision recorded and the provision obtained by applying the combined federal and provincial statutory rates is as follows:

| | 2000 | 1999 |
|--|---------------------|---------------------|
| Income before income taxes | \$ 16,952,000 | \$ 8,172,000 |
| Canadian corporate tax rate | 44.6% | 44.6% |
| Calculated income tax provision | 7,561,000 | 3,645,000 |
| Effect on taxes from | | |
| Foreign tax rate differential | 1,486,000 | 1,186,000 |
| Expenses incurred in Canada with no recognized tax benefit | 529,000 | 1,436,000 |
| Amortization of deferred credit | (2,803,000) | (2,582,000) |
| | <u>\$ 6,773,000</u> | <u>\$ 3,685,000</u> |

The future tax asset of \$19,970,000 (1999 - \$26,526,000) relates to the excess of the unclaimed tax deductible costs of capital assets over the related net book carrying value. The future tax asset will be realized as the capital cost deductions for income tax purposes exceed book depletion and depreciation.

The deferred credit of \$8,539,000 (1999 - \$11,342,000) arises on the purchase of the Tunisian oil and gas properties in 1996, for cash consideration of \$11 million and represents the excess of the future tax assets and other net assets acquired as compared to the purchase consideration. The deferred credit is amortized in proportion to the realization of the future tax.

For Canadian tax purposes, the Company has loss carryforwards of approximately \$12 million for which no tax benefit has been recognized in these financial statements.

CENTURION ENERGY INTERNATIONAL INC.
Notes to Consolidated Financial Statements

For the Years Ended December 31, 2000 and 1999
(expressed in Canadian Dollars)

10 SEGMENTED INFORMATION

| | <u>Canada</u> | <u>North Africa</u> | <u>Total</u> |
|-------------------|---------------|---------------------|---------------|
| December 31, 2000 | | | |
| Revenue | \$ 562,000 | \$ 27,452,000 | \$ 28,014,000 |
| Capital assets | 541,000 | 59,955,000 | 60,496,000 |
| December 31, 1999 | | | |
| Revenue | 89,000 | 19,826,000 | 19,915,000 |
| Capital assets | 345,000 | 51,021,000 | 51,366,000 |

The Company is engaged in oil and gas exploration, development and production in North Africa. All of the Company's producing properties at December 31, 2000 were in Tunisia. The net book value of the Tunisian capital assets is \$44,377,000 (1999 - \$38,482,000). The remaining foreign capital assets of \$15,578,000 (1999 - \$12,539,000) are in Egypt.

11 SUPPLEMENTAL CASH FLOW INFORMATION

a) *Changes in non-cash working capital*

| | <u>2000</u> | <u>1999</u> |
|----------------------------|---------------------|-----------------------|
| Operating activities | | |
| Accounts receivable | \$ (1,333,000) | \$ (2,735,000) |
| Deposits and prepaids | 59,000 | (130,000) |
| Income taxes payable | 2,878,000 | 152,000 |
| Accounts payable | (2,474,000) | 93,000 |
| Total operating activities | <u>\$ (870,000)</u> | <u>\$ (2,620,000)</u> |

b) *Non-cash transactions*

| | 2000 | | 1999 | |
|--|---------------------|-----------------|---------------------|-----------------|
| | Number of shares | Stated value | Number of shares | Stated value |
| Notes payable converted to common shares | 2,115,385 | \$ 1,631,000 | 7,307,692 | \$ 5,500,000 |

c) *Cash, taxes and interest*

| | 2000 | 1999 |
|------------------------|------------|------------|
| Cash taxes paid | \$ 405,000 | \$ 115,000 |
| Cash interest paid | 176,000 | 554,000 |
| Cash interest received | 299,000 | 110,000 |

12 SUBSEQUENT EVENTS

An amended joint development agreement between the Company and Caterpillar Power Ventures Inc. was signed on April 5, 2001. Pursuant to this agreement, the development partner has advanced two loans totalling US \$5.2 million to the Company. Of this amount, US \$3.7 million will be repaid with the proceeds of the sale to the development partner of one-half of the shares of the Company's wholly owned subsidiary, Societe d'Electricite d'El Bibane ("SEEB"), the operating company for the 25 megawatt power plant being developed in Tunisia. The other loan in the amount of US \$1.5 million will be repaid from the Company's share of cash flow from the project and from the Company's gas sales to the project.

CORPORATE INFORMATION

Officers and Key Personnel

Said S. Arrata, P.Eng.
President & Chief Executive Officer

Barry W. Swan, C.A.
Senior Vice-President & Chief
Financial Officer

Dr. Hany Elsharkawi, P.Eng.
President and General Manager
Centurion Petroleum, Egypt

Keith Howells, P.Geol.
President and General Manager
Ecumed Petroleum, Tunisia

Philip Beck, P.Eng.
Vice President, Engineering &
Production

Mike N. Zayat, P.Geol.
Vice President, New Business

Directors

Said S. Arrata
President & Chief Executive Officer
Centurion Energy International Inc.

Barry W. Swan
Senior Vice-President & Chief
Financial Officer
Centurion Energy International Inc.

Badr Al Aiban
Chairman, Delta Oil Company

Derrick R. Armstrong
Partner, Armstrong Perkins Hudson

Gary V. Awad
Senior Advisor to Delta Oil Company
Managing Director, ThreeG Capital

Michael Miller
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Ltd.

Leroy Wolbaum
International Petroleum Consultant

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Mohammed Raouf Boukhris
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Centurion Petroleum
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Maadi, Cairo, Egypt

TERMS & ABBREVIATIONS

| | |
|---------|---|
| m | thousand |
| mm | million |
| B | billion |
| T | trillion |
| bbl(s) | barrel(s) |
| bbls/d | barrels per day |
| bopd | barrels of oil per day |
| boe | barrels of oil equivalent (6 mcf = 1 bbl) |
| bcpd | barrels of condensate per day |
| stb | stock tank barrels (of oil) |
| cf | cubic feet (of natural gas) |
| cf/d | cubic feet per day |
| liquids | natural gas liquids |
| NGL | natural gas liquids |
| MW | megawatt |
| WI | working interest |
| WTI | West Texas Intermediate |
| NAV | net asset value |
| NPVAIT | net present value after income taxes |
| 2D, 3D | two or three dimensional seismic survey |
| km | kilometre |



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